

Message Text

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PAGE 01 BRUSSE 05373 180457Z
ACTION EUR-12

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FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 5553
INFO AMEMBASSY LONDON
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USMISSION GENEVA

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USEEC

PARIS FOR OECD

GENEVA ALSO FOR MTN; PARIS FOR OECD

E.O. 11652: N/A
TAGS: EEC, ETRD
SUBJECT: EC COMMISSION ALLOWS CONDITIONAL EXTENSION OF UK
TEMPORARY EMPLOYMENT SUBSIDY

1. THE EC COMMISSION HAS DECIDED ON A COMPROMISE WITH
THE UK GOVERNMENT OVER A TEMPORARY EMPLOYMENT SUBSIDY
(TES) WHICH IT CLAIMED WAS DISTORTING COMPETITION
WITHIN THE EC. UNDER TERMS OF THEIR AGREEMENT THE
COMMISSION WILL GRANT A ONE-YEAR EXTENSION TO THE TES
ON CONDITION THAT: THE TOTAL BUDGET WILL BE REDUCED,
A SMALLER SHARE OF THE TES WILL GO TO STRUCTURALLY
WEAK INDUSTRIES, AND REGULAR REPORTS WILL BE MADE TO
THE COMMISSION ON THE USES OF THE TES.

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PAGE 02 BRUSSE 05373 180457Z

2. ACCORDING TO EC COMMISSION COMPETITION OFFICIALS,
THEY WILL NOT BE SATISFIED UNTIL THE TES IS ABOLISHED
AND THEY HOPE TO ACCOMPLISH THIS NEXT YEAR. COMMISSION
OFFICIALS SAID THEY WERE POLITICALLY CONSTRAINED FROM
SEEKING A TOTAL DISMANTLING OF THE TES GIVEN THE ECONOMIC
CONDITIONS IN THE UK, THE VULNERABILITY OF THE UK GOVERN-

MENT TO PRESSURE FROM THE UNIONS, AND THE SUPPORT FOR THE
TES FROM EUROPEAN LABOR AND ESPECIALLY THE EUROPEAN
TRADE UNION CONFEDERATION.

3. THE COMMISSION FOR ITS PART WAS UNDER PRESSURE FROM
ALL OTHER MEMBER STATES, ESPECIALLY THE DANES AND THE
IRISH, TO STOP THE SCHEME. THE CONCERNS OF THE COMMISSION
AND OTHER MEMBER STATES CENTERED ON THE UNEMPLOYMENT DE-
FLECTION SUFFERED IN OTHER ECONOMIES AS A RESULT OF THE TES
WHICH IS USED TO PAY PART OF THE SALARY OF WORKERS WHO
WOULD NOT OTHERWISE HAVE BEEN EMPLOYED. THE COMMISSION
MAINTAINED THAT THIS IMPACT IS ALSO FELT IN THE UK
WHERE FOR EVERY TWO WORKERS APPROXIMATELY ONE OTHER
WOULD EITHER LOSE A JOB OR NOT SEE A JOB CREATED.

4. THE COMMISSION ALSO FEELS THAT THE ORIGINAL PURPOSE OF
THE TES HAS BEEN DISTORTED. THE AID IS NO LONGER TEMPOR-
ARY, HAVING GONE ON FOR 18 MONTHS. MONEY IS NOT BEING USED
TO HELP WORKERS THROUGH CYCLICAL PROBLEMS BUT GOING TO THE
STRUCTURALLY WEAK FOOTWEAR, CLOTHING AND TEXTILE INDUSTRIES,
AND THE AMOUNTS INVOLVED HAVE JUMPED FROM 6-8 MILLION DOL-
LARS IN THE ORIGINAL 1975 PROPOSAL TO WELL OVER 400 MILLION
DOLLARS. COMPETITION OFFICIALS TOLD UK NEGOTIATORS THAT NO
OTHER MEMBER STATE HAD COMPARABLE AID PLANS, ALTHOUGH
SEVERAL OTHERS SHARED THE SAME PROBLEMS WITH SICK SECTORS
AND WEAK REGIONS.
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PAGE 03 BRUSSE 05373 180457Z

5. HEAD OF COMMISSION STATE AID POLICY JEAN-LOUIS CADIEUX
TOLD MISSION OFFICER THAT HE WAS CONFIDENT THE SCHEME
COULD BE DISMANTLED COMPLETELY NEXT YEAR. HE SAID THAT
RECENTLY HE HAD NOTICED SOME CHANGE WITH REGARD TO
MEMBER STATE ATTITUDES TOWARDS SUCH AIDS. ONE YEAR
AGO THERE APPEARED TO BE A DANGER OF PROLIFERATION OF
AIDS BECAUSE MEMBER STATES THOUGHT THEY COULD GET
AWAY WITH A QUICK-FIX. SINCE THEN, CADIEUX SAYS, THERE
HAS BEEN A GROWING REALIZATION FIRST, THAT THE CYCLICAL
SITUATION MIGHT NOT IMPROVE QUICKLY, AND SECOND, THAT
EVERYBODY HAS THE SAME PROBLEMS AND SOLUTIONS DESIGNED
TO ARTIFICIALLY PRESERVE EMPLOYMENT IN ONE COUNTRY REPRE-
SENT A BURDEN TO OTHERS. REGARDING THE UK, CADIEUX SAID
THAT THIS SPIRIT OF TOGETHERNESS WAS NOT AS STRONG AS
ELSEWHERE BUT THAT AT LEAST THEY WERE SHOWING MORE
AWARENESS OF THE COMMISSION'S COMPETENCE IN MATTERS
OF STATE AIDS. MORRIS

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